

BUSINESS — Organization of Business

Organisational Structures · Types · Globalisation · Key Elements of Structure

PAGE 1 · CHAPTER ROADMAP, DEFINITIONS & CORE CONCEPT

1 CHAPTER OVERVIEW — THE ROADMAP

CENTRAL IDEA A formal structure — whether **traditional or contemporary** — brings **order, discipline and control** to decision-making and shapes the organisation, whether **tall or flat**. It rests on key elements such as **specialisation, levels of management, chain of command** and **spans of control**.

AREA 1
Organisational structures
Purpose & importance

AREA 2
Types of structure
Entrepreneurial · functional ·
divisional · matrix · virtual

AREA 3
Globalisation
MNOs · emerging markets

AREA 4
Key elements of structure
6 building blocks → tall vs flat

2 KEY DEFINITIONS

Teal terms = high exam priority

Organisational structure

The **formal arrangement** defining how activities & tasks are **divided** and how processes & information **flow**, to achieve organisational goals.

Entrepreneurial organisation

An entity **managed directly by its entrepreneurial owner**, who takes all key decisions.

Functional organisation

Groups together people with **similar skills** performing **related tasks**.

Divisional organisation

Large company split into relatively **autonomous divisions** — by product, customer, process or geography.

Matrix organisation

Employs a **multiple command system** with support mechanisms, culture & behaviour pattern (Davis & Lawrence 1977); **dual reporting**.

Virtual organisation

No identifiable physical existence — may have no head office, premises, employees or assets; run via IT & outsourcing partners.

Globalisation

The increasing **integration of economies, cultures and markets** across the world.

Multinational organisation

A corporation that **operates in more than one country**.

Emerging markets

Economies **transitioning from developing to developed** status.

Departmentalisation

How activities and people are **grouped into units** — the framework for coordinating jobs.

Chain of command

An **unbroken line of authority** from the top (e.g. CEO) to the bottom; clarifies **who reports to whom**.

Span of control

The **number of subordinates** a superior can effectively manage.

Levels of management

The **hierarchy of authority** — how responsibilities are distributed across layers.

Centralised / Decentralised

Decision-making power **concentrated at a single point / distributed across different levels**.

Work specialisation

Also the '**division of labour**' — degree to which tasks are divided into separate jobs.

3 CORE CONCEPT — STRUCTURE DRIVES RESULTS

✓ CORRECT MANAGEMENT STRUCTURE →

- ✓ Sustained **growth**
- ✓ Satisfied employees
- ✓ Profitable returns for shareholders

✗ WRONG STRUCTURE →

- ✗ Tensions between employees & managers
- ✗ Inefficient work practices; lower **profitability**
- ✗ Worst case: **closure** of the organisation

4 PURPOSE OF AN ORGANISATIONAL STRUCTURE (7)

1 Divides work into specific **jobs & departments**

2 Assigns **tasks & responsibilities** to jobs

3 Coordinates diverse activities

4 Groups jobs into **functional units**

5 Establishes **relationships** among individuals, groups & departments

6 Establishes formal **lines of authority**

7 Allocates & deploys resources

In short: how an organisation is **built** and how its components **fit together**

PAGE 2 · CHOOSING A STRUCTURE, APPROACHES, ENTREPRENEURIAL & FUNCTIONAL

5 CHOOSING THE RIGHT STRUCTURE

MUST SUIT THE ENTITY'S

- Size
- Nature of operations
- Objectives

Most importantly, it must let the entity **develop and implement plans** effectively & efficiently.

MIXED STRUCTURES

Within one entity — especially a **large** one — there may be a **mix of structures**, with different approaches in different parts.

⚠ NAÏVE ASSUMPTION

Structure is **not** 'correct, fixed, never needs change'. Continually **assess suitability**; a **dynamic** structure gives flexibility & growth.

6 APPROACHES TO ORGANISATIONAL STRUCTURE (5)

Approach	What it means / examples	Key point
1. Nature of work	Skilled, unskilled, specialised, management...	—
2. Traditional departmentalisation	Functional (finance, operations, marketing) · Product (credit cards, mortgages, auto loans) · Process (assembly, shipping) · Customer (automotive, airline) · Geographic (Europe, USA, Canada)	Generally more rigid
3. Contemporary & team-based	Matrix (project management approach) · Committee (executive risk, business continuity, audit committees)	More dynamic — respond quickly to change
4. Outsourcing	Non-core activities to specialised vendors — e.g. accounting or IT	—
5. Virtual networks	Independent companies (suppliers, customers, stakeholders) linked through IT platforms	A new trend

4 BASIC STRUCTURES that may exist within an entity or part of it: a) Entrepreneurial b) Functional c) Divisional d) Matrix (+ virtual organisations, covered later)

7 ENTREPRENEURIAL ORGANISATION

MAIN FEATURES

- Entrepreneur takes **all key decisions**; does not **delegate**
- Centred on the entrepreneur; **lacks a formal management structure**
- Simple** operations & processes; **small range** of products/services

✓ MOST APPROPRIATE

In the **early phases** of an entity's life, when the entrepreneur keeps a **direct connection** with employees.

✗ AS IT EXPANDS

Becomes increasingly **inefficient** → a **formal management structure** becomes necessary.

8 FUNCTIONAL ORGANISATION

FEATURES

- Groups people with **similar skills** doing **related tasks**
- Typical for **small to medium-size** companies
- Each function headed by a **specialist**; has its own management & staff
- Functions: HR, operations, marketing, finance (business schools too)

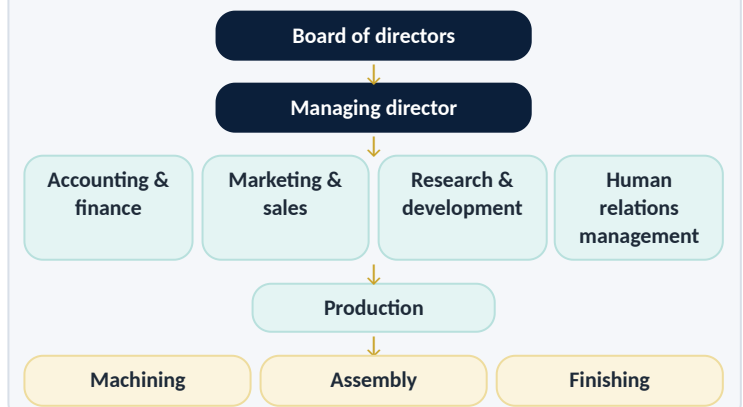
✓ ADVANTAGES

- Simple to understand
- Staff **specialise**; shared interests & expertise

✗ DRAWBACKS (homogeneity)

- Hinders **communication & decisions** between units
- May promote **interdepartmental conflict**

STUDY TEXT FIGURE — SIMPLE FUNCTIONAL STRUCTURE



CONFLICT EXAMPLE (STUDY TEXT) Marketing wants to **maximise advertising expenditure** ⇔ Accounting wants to **control costs**.

PAGE 3 · DIVISIONAL ORGANISATIONS & XYZ CASE

9 DIVISIONAL ORGANISATION — WHY & HOW

PROBLEM

Large company as one unit under a functional structure is unruly

Size makes it hard to oversee operations & serve customers

SOLUTION

Structure as divisions

Similar to stand-alone companies

RESULT

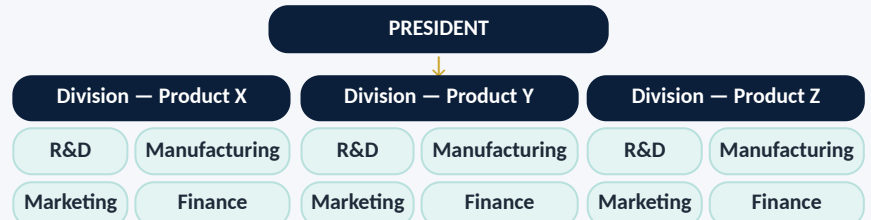
Each division relatively autonomous

Has most functional expertise it needs

KEY FEATURES

- Each division contains **production, marketing, accounting, finance, HR** expertise
- Certain **common tasks** (e.g. **legal work**) centralised at headquarters
- A **corporate / head office** function may provide **shared services** to all divisions
- Challenge: find the best way to structure operations to achieve **overall company goals**

STUDY TEXT FIGURE — PRODUCT DIVISIONS



10 4 BASES FOR FORMING DIVISIONS

Study Text examples

Division basis	Meaning / benefit	Study Text example
Product	Organised by product lines ; each division focuses entirely on its products. X Higher costs — support services (accounting, HR) duplicated	General Motors : Buick, Cadillac, Chevrolet, GMC — each with own R&D, manufacturing & marketing
Customer	Better serve various categories of customers	Healthcare firm: consumer (personal-care & hygiene), pharmaceuticals (to pharmacies), professional (devices for physicians, hospitals, labs)
Process	Goods move through several steps in production	Canadian forestry company : tree cutting → chemical processing → finishing (≈90% pulp sold; 10% → newsprint)
Geographical	Operates in several locations; responsive to local customers ; each region reports separately	Multinational: North America, Europe, Asia-Pacific, Latin America

11 SUMMING UP DIVISIONAL ORGANISATIONS

✓ ADVANTAGE

- Generally enhances the ability to **respond to changes** in the firm's environment

X DISADVANTAGES

- X Higher costs** if services are **duplicated** across units
- X Units may focus on their own needs & goals** at the expense of the whole organisation

12 CASE STUDY — XYZ: STRUCTURE FOR PRODUCT INNOVATION

Study Text case

① PRODUCT TYPE DIVISIONS

MOST SIGNIFICANT

Manage development, manufacturing, distribution & sale. Supports **product differentiation** (XYZ's generic strategy) and its diverse portfolio.

Personal Care Foods Home Care
Refreshment

② CORPORATE EXECUTIVE TEAMS

SECONDARY

Based on **business functions** — e.g. finance team, marketing communications team → together form the XYZ Leadership Executive (XLE).

③ GEOGRAPHIC DIVISIONS

LEAST SIGNIFICANT

Support **regional strategies** (Europe ≠ Asia marketing) and analyse **financial performance**: Asia/Africa/Middle East/Turkey/Russia/Ukraine/Belarus · America · Europe.

✓ ADVANTAGES

- Supports **product development & innovation** — semi-autonomous divisions develop products for segments
- Differentiates products despite **large-scale global operations**

X DISADVANTAGE → IMPROVEMENT

- X Minimal support for regional strategic implementation**
→ Increase emphasis on **geographic divisions** to empower regional teams.

PAGE 4 · MATRIX, STRUCTURE COMPARISON & VIRTUAL ORGANISATIONS

13 MATRIX ORGANISATION

KEY FEATURES

- **Multiple command system** + support mechanisms, culture & behaviour (Davis & Lawrence 1977)
- **Not** the traditional hierarchical model — **dual reporting** for all employees
- a.k.a. the **project management approach**
- Combines **functional + product** departmentalisation
- Two supervisors: **functional line manager + project manager**
- Vertical command overlaid with **horizontal authority**

STUDY TEXT FIGURE — MATRIX

CEO / President	Head of Production	Head of Sales & Marketing	Head of Finance & Admin
Project Manager A →	Production Supervisor A	Sales Representative	Manager Finance A
Project Manager B →	Production Supervisor B	Sales Representative	Manager Finance B
Project Manager C →	Production Supervisor C	Sales Representative	Manager Finance C

Each person reports **down** to a functional head **and across** to a project manager.

ORIGIN

First used in **defence & aerospace** (e.g. aircraft for a government client). Problem: in a functional structure **no one was responsible for the whole project** (on time, within budget) → **project managers** given overall responsibility; **functional managers kept decision-making authority** → dual command.

MATRIX vs PROJECT ORGANISATION

Project organisation: project management **ends** when the project is completed.

Matrix: authority & command structure is **permanent**.

Matrix should: encourage **communication**; emphasise '**getting the job done**' over defending positions.

STUDY TEXT EXAMPLES

Large company: divisional managers (market/product profitability) + head-office functional managers.

University: heads of faculty/department + **course-based** lecturers managing staff, rooms, exams.

14 COMPARING THE BASIC STRUCTURES

Built only from Study Text points

Basis	ENTREPRENEURIAL	FUNCTIONAL	DIVISIONAL	MATRIX
Organised around	The entrepreneur-owner	Similar skills / business functions	Products, customers, processes or geography	Functions + projects/products (dual)
Best suited to	Early phases of an entity's life	Small to medium-size companies	Large companies	Major projects; defence & aerospace origin
Decision-making	Centralised — owner does not delegate	Centralised (Study Text example)	Divisions relatively autonomous; geographical = decentralised	Decentralised (Study Text example)
Reporting	No formal management structure	Each function has its own management	Division managers; HQ handles common tasks	Two supervisors — line + project manager
Key strength	Direct connection with employees	Simple; specialisation	Responds to environmental change	Communication; 'getting the job done'
Key weakness	Inefficient as entity expands	Poor inter-unit communication; conflict	Duplicated costs; units' own goals	—

15 VIRTUAL ORGANISATIONS

WHAT IT IS

- **No identifiable physical existence** — no head office or operational premises
- May have **no employees or assets**
- One person or a few can **indirectly control** many external entities

OPERATED BY MEANS OF

- IT systems & communication networks — normally telephone & e-mail
- Specialised business partners** for outsourcing key operations

KEY TO SUCCESS Effective management of **external relationships** & co-ordination of their activities.

STUDY TEXT EXAMPLES

Small — house builder runs from home; hires skilled & unskilled labour per job, supervises; accounting firm handles invoicing. Core competence = **personal skill & experience**.

Large — branded footwear: core competence = **brand name**; outsource manufacturing (developing countries), warehousing, self-employed sales reps, marketing agency.

PAGE 5 · GLOBALISATION, DEPARTMENTALISATION & CHAIN OF COMMAND

16 GLOBALISATION

MEANING Increasing **integration of economies, cultures and markets**. Businesses are no longer confined within national boundaries — a product may be **designed** in one country, **manufactured** in another, **assembled** in a third and **sold globally**. MNOs are key players; emerging markets drive global growth.

i International trade expansion

Produced in one country, consumed globally; **free trade agreements** encourage exchange

ii Cross-border investment

MNCs invest in subsidiaries, factories, offices; **FDI** gives access to markets & resources

iii Global communication & technology

Digital platforms, internet, logistics → coordinate across countries in **real time**

iv Mobility of labour & capital

Skilled professionals migrate to hubs; **capital flows freely**

v Standardisation & cultural exchange

Global brands standardise (with **local adaptations**); tastes converge, cultural identity remains

MULTINATIONAL ORGANISATIONS — FEATURES

- Large-scale global operations — **HQ in one country**, subsidiaries worldwide
- **Economies of scale** → cost efficiencies
- **Transfer of technology & knowledge**
- **Global supply chains** — design, production, sales across nations
- **Corporate influence** on trade, employment, even government policy

EMERGING MARKETS — CHARACTERISTICS

- **Rapid economic growth & industrialisation**
 - **Large consumer bases**, rising middle class
 - Attractive for investment — **cheaper labour** & expanding demand
- MNOs see them as **engines of future growth**: **lower production costs + increasing purchasing power**.

✓ OPPORTUNITIES

New markets · lower costs · diversified risk · greater profits

✗ CHALLENGES

Cultural differences · political instability · exchange rate risks · ethical concerns (labour exploitation)

STRATEGIC RESPONSE

Balance **global efficiency** with **local responsiveness** — the '**global-local balance**'

17 KEY ELEMENTS OF ORGANISATIONAL STRUCTURE — 6 BUILDING BLOCKS

Departmentalisation

Chain of command ★

Span of control ★

Levels of management

Centralisation / decentralisation ★

Work specialisation

★ Fundamental — applicable to **every** type of organisation.

18 DEPARTMENTALISATION

MEANING

How activities & people are **grouped into units**. Once work is divided into jobs, they must be **coordinated** — departmentalisation groups similar tasks to provide that framework.

Choice depends on **nature, size & strategy**; many use a **hybrid** of two or more methods.

Form	Groups jobs by...
i. Functional	Specialised functions — marketing, finance, production, HR
ii. Product	Specific products or product lines
iii. Geographical	Location, territory or region
iv. Customer	Customer type — retail, corporate, government
v. Process	Stages in the production process or workflow

19 CHAIN OF COMMAND

MEANING

An **unbroken line of authority** from the top of the organisation (e.g. the **CEO**) all the way down to the bottom. It clarifies **who reports to whom**. One of the **most basic** elements of structure.



PAGE 6 · SPAN, LEVELS, CENTRALISATION & SPECIALISATION

20 SPAN OF CONTROL

MEANING

The **number of subordinates** a superior can effectively manage. The **higher the ratio** of subordinates to superiors, the **wider the span**.

SPAN OF CONTROL DEPENDS ON (5 FACTORS)

- Manager's **capabilities** (physical & mental limitations)
- Nature of the manager's **workload**
- Nature of the **work** — how **routine** it is
- **Geographical dispersion** of subordinates
- Level of **cohesiveness** within the team

TALL-NARROW



- Each manager has a **small number** of direct subordinates
- **Many layers** of management (large organisation)
- Span **narrow**; shape **tall**

WIDE-FLAT



- Each manager has a **large number** of direct subordinates
- **Few layers** even in a large organisation
- Span **wide**; shape **flat** (Self-Test Q10)

21 LEVELS OF MANAGEMENT

MEANING The hierarchy of authority — how responsibilities are distributed across layers. Number of levels depends on **size & complexity** and the span of control.

- Top-level management** — CEO, board of directors, managing director → set **overall strategy**, define goals, make **long-term decisions**
- Middle-level management** — departmental heads, division managers, branch managers → **translate strategic goals into operational plans**; coordinate across departments
- Lower-level (supervisory)** — supervisors, team leaders → oversee **day-to-day operations**, monitor performance, ensure tasks done efficiently

22 CENTRALISATION vs DECENTRALISATION

Basis	CENTRALISED	DECENTRALISED
Decision power	Concentrated at a single point ; senior management retain most/all authority	Distributed across levels; delegated to lower units — SBU & divisional managers
Study Text examples	Functional, entrepreneurial	Matrix, geographical
Arguments for	Decisions consider corporate objectives as a whole · strong case for strategic decisions centrally · key decisions better coordinated · easier in a crisis	Local managers often have better knowledge of operational conditions · tactical & operational decisions often better locally (esp. large orgs) · delegation motivates management · quicker decisions — no referral to head office (Self-Test Q7)

WHAT DECIDES THE CHOICE? Partly **senior management's preference**, but **size & complexity** also influence it — a large, complex entity is hard to control from head office without delegating substantial authority (Self-Test Q13: TRUE).

23 WORK SPECIALISATION (DIVISION OF LABOUR)

✓ ADVANTAGES

- ✓ Efficiency through **repetition & expertise**
- ✓ **Reduced training costs**
- ✓ Higher productivity in **routine/standardised** processes

✗ DISADVANTAGES (EXCESSIVE)

- ✗ **Boredom**, monotony, low job satisfaction
- ✗ **Reduced flexibility** — narrow training
- ✗ **Coordination problems** between specialised roles

MODERN BALANCE

Enough specialisation for **efficiency**, plus **job rotation, enrichment or teamwork** to maintain **motivation**.

PAGE 7 · TALL vs FLAT, EXAM PATTERNS & TRAPS

24 TALL vs FLAT — HOW THE KEY ELEMENTS COMBINE

Study Text table

Key element	TALL	FLAT
Work specialisation	High degree	Low degree
Departmentalisation	Rigid (more traditional)	Loose (more contemporary)
Management layers	Many levels	Few levels
Span of control	Narrow	Wide
Decision-making	Centralised	Decentralised
Chain of command	Long	Short

EXAMPLES

Armed forces → typically **tall**
Universities → **flat**

REALITY Most organisations fall **between** the two. Structure also depends on **goals & objectives**, **size** and the **stability of the external environment**.

25 HOW THIS CHAPTER CAN BE TESTED

- Definition-based** — structure, span of control, chain of command, matrix, virtual org, globalisation
- Fill in the blank** — “___ = number of subordinates a superior can manage” → span of control
- True / False** — size & complexity influence centralisation (T); tactical decisions locally (T)
- Scenario identification** — lines of business → divisional; grouped by expertise → functional
- Statement-based** — which statements are true for centralised / decentralised decisions
- Comparison** — tall vs flat; centralised vs decentralised; matrix vs project; traditional vs contemporary
- Classification** — 5 forms of departmentalisation; 4 division bases; 3 management levels
- Cause → effect** — span factors; wrong structure → tension, inefficiency, closure

26 ⚠ EXAM TRAPS

- Span of control** — = **number of subordinates** a superior can effectively manage (Q2) — not ‘control ratio’.
- Wide ↔ flat, narrow ↔ tall** — Wide span + few levels = **wide-flat** (Q10). ‘Tall-flat’ / ‘wide-short’ are distractors.
- Chain of command** — An **unbroken line of authority**; clarifies **who reports to whom** (Q8, Q9).
- Multiple command system** — = **Matrix** organisation (Q1) — every employee has **dual reporting**.
- Matrix vs project** — Project management **ends** with the project; matrix command structure is **permanent**.
- Functional clue** — Grouped by **similar skills / expertise** → **functional** (Q11, Q12).
- Divisional clue** — Organised by **lines of business** (products/customers) → **divisional** (Q4).
- Which decisions where?** — **Strategic** → centrally; **tactical & operational** → often better locally (Q3).
- Centralised advantage** — Key decisions **better coordinated** (Q6) — not ‘senior managers are always right’.
- Examples by decision level** — Centralised: **functional, entrepreneurial**. Decentralised: **matrix, geographical**.
- Rigid vs dynamic** — Traditional departmentalisation = **rigid**; matrix & committee = **dynamic**.
- Entrepreneurial** — No delegation, no formal structure, simple ops; suits **early phases** only.
- Product divisions** — Downside: **duplicated support services** → higher costs.
- XYZ case** — Product type divisions = **most** significant; geographic = **least**.
- Emerging markets** — **Transitioning** from developing to developed — not already developed.
- Structure is fixed?** — **Naïve** — structure must be continually assessed; a dynamic structure aids growth.

PAGE 8 · DECISION TREE, MCQ CLUES, MEMORY MAP & 60-SECOND REVISION

27 DECISION TREE — IDENTIFY THE STRUCTURE

READ THE SCENARIO → FIND THE KEY CLUE → SELECT THE STRUCTURE → CHECK THE CONDITION

1	Owner takes all decisions , no formal structure, simple ops → ENTREPRENEURIAL (check: early phase)	2	People grouped by similar skills / expertise → FUNCTIONAL (small-medium firm)
3	Autonomous units by product, customer, process or region → DIVISIONAL (which basis?)	4	Employees report to two bosses — line + project manager → MATRIX (permanent? else project org)
5	No premises; run via IT & outsourced partners → VIRTUAL	6	Few layers, wide span, decentralised → FLAT ; many layers, narrow span → TALL

28 MCQ QUICK-CLUE SECTION

All 13 Self-Test questions

Multiple command system + culture	Matrix (Q1)	Number of subordinates a superior can manage	Span of control (Q2)
Tactical & operational decisions at local level	TRUE (Q3)	Lines of business — consumer, industrial, retail...	Divisional (Q4)
True for centralised decisions	All of the above (Q5)	Advantage of centralisation	Better coordination (Q6)
Feature of decentralisation	All of the above (Q7)	Unbroken line of authority top → bottom	Chain of command (Q8)
Chain of command...	Clarifies who reports to whom (Q9)	Wide span, flat shape, few levels	Wide-flat (Q10)
Comparable skills, similar tasks	Functional (Q11, Q12)	Size & complexity influence centralisation	TRUE (Q13)

29 QUICK MEMORY MAP

Concept	Key words	Core idea
Organisational structure	divide · assign · coordinate · authority	how the organisation is built
Entrepreneurial	owner decides · no formal structure · simple	early-stage organisations
Functional	similar skills · specialists · departments	simple; risk of conflict
Divisional	product · customer · process · geography	autonomous units; duplicated costs
Matrix	dual reporting · project manager · permanent	getting the job done
Virtual	no premises · IT · outsourcing partners	manage external relationships
Globalisation	trade · FDI · MNOs · emerging markets	global-local balance
Key elements	departments · chain · span · levels · (de)centralisation · specialisation	tall vs flat

30 BUSINESS — ORGANIZATION OF BUSINESS IN 60 SECONDS

⚙️ STRUCTURE & TYPES

- Structure: formal division of tasks & flows
- Must suit size, operations, objectives
- 4 basic: entrepreneurial, functional, divisional, matrix (+ virtual)
- Matrix = dual reporting, permanent

🌐 GLOBALISATION

- Trade, FDI, technology, mobility, standardisation
- MNOs: scale, tech transfer, supply chains
- Emerging: growth, consumers, cheap labour
- Global-local balance

⚙️ KEY ELEMENTS

- Chain = who reports to whom
- Span = no. of subordinates; wide → flat
- Strategic central; tactical local
- Tall: specialised, rigid, centralised, long chain